



INTERNAL CONTROL MANUAL

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Internal Control Manual

Introduction

The City of Lakeland has the responsibility to its taxpayers, ratepayers, and constituents to be good stewards of public monies and property. In our efforts to serve the public as city officials or employees, the City established this Internal Control Manual using widely recognized best practices and state and federal directives.

State of Tennessee statutes require the Comptroller's Office, Department of Audit to prescribe uniform accounting systems for entities that handle public funds. Those statutes require public officials to adopt and use the system designated by the Comptroller's Office. The Tennessee Legislature amended TCA Section 9-2-102 in 2015 to require local governments to establish and maintain internal controls in accordance with guidance issued by the U.S. Government Accountability Office (GAO). The guidance is titled *Standards for Internal Control in the Federal Government* (Green Book). The Green Book follows the format developed by the Committee of Sponsoring Organizations (COSO) which has been the gold standard of internal control for all entities except the federal government for several years.

The internal control system consists of three (3) objectives and five (5) main components.

THREE (3) OBJECTIVES OF INTERNAL CONTROLS:

1. Reporting – reliability
2. Operations – effective and efficient
3. Compliance – compliant with applicable laws, regulations, contracts and grant agreements

FIVE (5) MAIN COMPONENTS OF INTERNAL CONTROLS:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

The purpose of this manual is to ensure that the objectives of reporting and compliance are established. The policies to achieve the objectives are derived from various financial best practices, state and federal laws, and regulations and policies may be developed to suit specific needs of city functions and resources. Detailed procedures are then developed and documented as a means for cities to comply with its established policies.

Five Components of Internal Control

1. Control Environment

Overview

The control environment is the foundation for all other components of internal control, providing discipline and structure. Moreover, management establishes the tone at the top regarding the importance of internal control and expected standards of conduct, and reinforces expectations at various levels. Control environment factors include the integrity, ethical values, and competence of the city's personnel; the way management assigns authority and responsibility, and organizes and develops its personnel; and the attention and direction provided by the governing body.

Objectives

The governing body and management should:

1. Conduct business with integrity and ethical behavior.
2. Provide direction and oversight for city's internal control system.
3. Hire qualified and competent management.
4. Establish structure, authority and responsibility, and hold individuals accountable for internal control responsibilities.

Policies

1. The governing body through management has adopted a personnel manual that details policies, expectations, and other employment-related topics.
2. Each employee receives a copy of the city's personnel manual, which includes a policy on business ethics and conduct, and signs an acknowledgement of receipt.
3. Management has developed job descriptions for each position and reviews employee compliance on an annual basis through performance evaluations.
4. The governing body uses the budget process as a means of oversight with department heads.
5. Organizational charts are reviewed for needed changes in regards to authority and responsibility.

Procedures

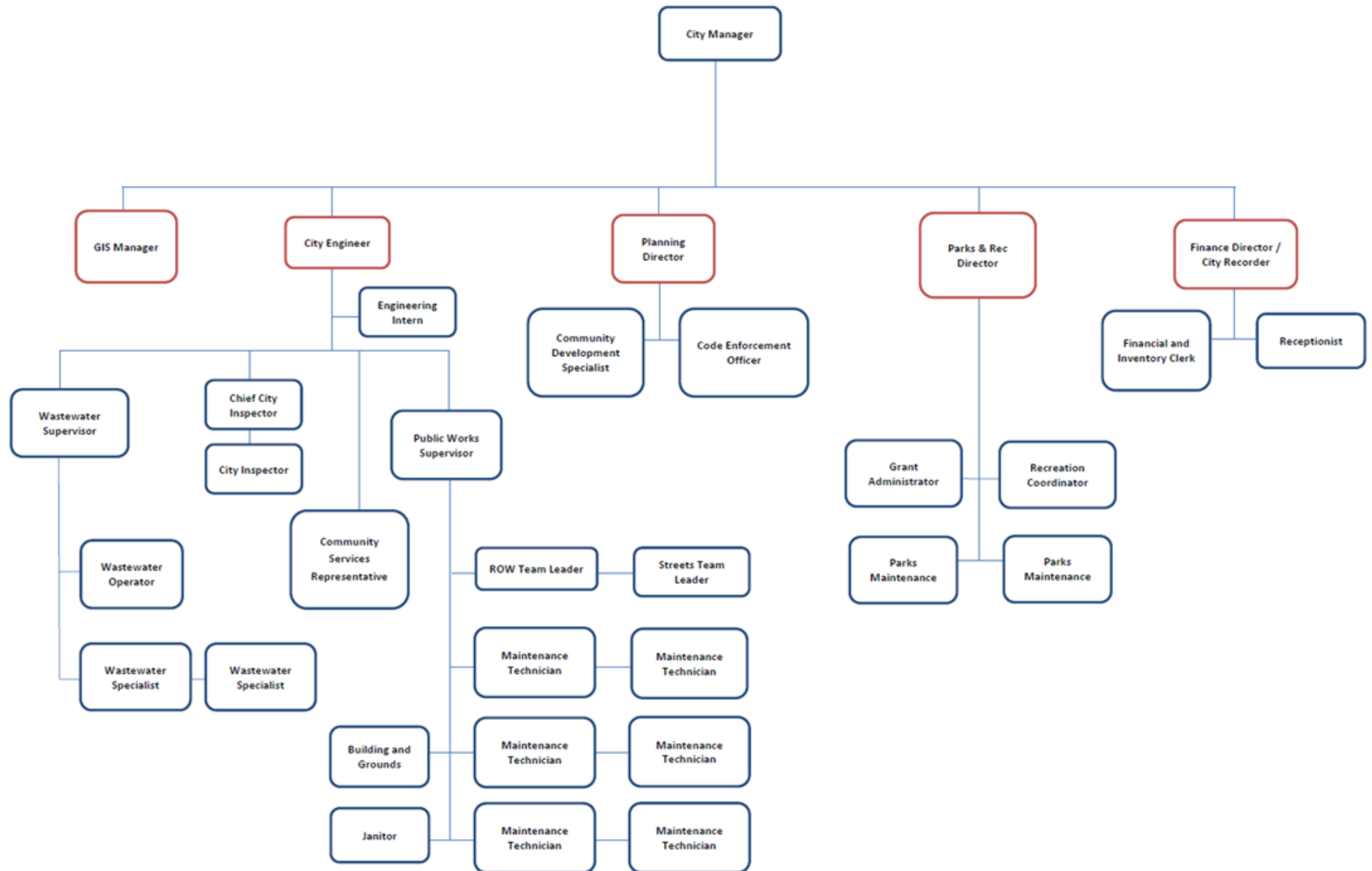
- The Finance Director/CMFO reviews the personnel manual annually to determine needed revisions to comply with federal and state laws, as well as practices of the city.
- The City Manager reviews suggested revisions, if any, by the Finance Director/CMFO and presents the finalized manual to the Board of Commissioners for approval.

1. Control Environment (Continued)

- The city holds annual required training where human resource topics are covered. The code of conduct and the personnel manual are always part of the training.
- Detailed job descriptions with minimum job requirements are maintained for each position within the city.
- Department heads review employee job descriptions annually to ensure compliance and document employee performance and conformity through an annual employee evaluation.
- The Finance Director prepares the annual budget beginning in March, with input from the City Manager and department heads, using historical data from the three (3) previous years. The Finance Director also prepares an annual capital budget.
- The proposed budget is presented to the Board of Commissioners during at least one (1) budget workshop in April. The City Manager, Finance Director, and all department heads are present to explain their budgets or request additional funding.
- The budget ordinance is prepared for first reading in May and second reading in June. The required public notice is published in the local newspaper no less than ten (10) days prior to the second and final reading.
- City organizational charts were developed based on the city structure required in the city charter.
- The charts are reviewed periodically as job descriptions and positions are added or changed to determine if the reporting structure, authority, and responsibility documented in the chart is still accurate.

1. Control Environment (Continued)

Organizational Chart



2. Risk Assessment

Overview

City officials and management assess risk of operations continually. The city has chosen to transfer the most common types of risk through the purchase of the following types of insurance:

- Property and Casualty
- Liability
- Errors and Omissions
- Worker Compensation
- Surety Bonds

There are risks we cannot anticipate or know about, and as it relates to financial and compliance issues, we have assessed the following areas and identified certain risks that we feel need to be addressed by the development of internal control policies and procedures. Internal controls will not eliminate all risk but will help reduce risk to gain reasonable assurance that reporting and compliance objectives are being met.

Objectives

1. **Collections** are complete, timely, and accurate.
2. **Disbursements** are for a valid city purpose and properly recorded.
3. **Assets** are properly safeguarded.
4. City is in **compliance** with contractual, local, state, and federal laws and regulations.

Risks

1. Collections could be lost or misappropriated.
2. Collections could be recorded improperly.
3. Collections may not be deposited in the bank and recorded timely.
4. Disbursements could be unauthorized.
5. Disbursements could be for personal items.
6. Disbursements could be made for items never received.
7. Bank balances may be inaccurate due to failure to reconcile bank accounts.
8. Capital assets or inventory items could be missing.
9. Inventory is not available when needed.
10. Grant funds could be spent for unallowable items.
11. Grant rules may not be followed which could result in having to return federal funds.
12. Federal reporting requirements were not met.

The significant areas of risk are identified above and policies and procedures will be documented in the next section to explain how the city plans to put internal controls in place to help reduce some of the risks associated with these areas of operations.

3. Control Activities

Overview

Detailed procedures will be documented in this section. The objectives, policies, and implemented procedures will be described for each of the significant areas identified in the Risk Assessment section.

Collections/ACHs

Objectives

1. Collections are complete, timely and accurate.
2. Collections are safeguarded.
3. Collections should be recorded accurately and timely in the accounting system.

Policies

1. All collections will be receipted to the appropriate fund and revenue code and recorded in the general ledger daily.
2. A pre-numbered receipt will be issued for each collection made.
3. The cash drawer and payment lockbox will be reconciled daily by two people and the receipt log will be signed.
4. No checks will be cashed from the cash drawer.
5. All funds will be deposited within three (3) business days.
6. The cash drawer will be locked when unattended and placed in a designated area after hours.
7. At no time will cash be left out in the open unattended.
8. Collections and associated receipts will be immediately placed in the payment lockbox.
9. Employees are prohibited from comingling city assets with personal assets.
10. Deposits containing cash are delivered to the bank in locked bank bags.
11. Chart of accounts codes will be reviewed with the cashier on a regular basis.
12. All daily collection reports are posted to the general ledger by the accounting system at the end of each business day as part of the cashier's daily closing process.
13. Reconciliations are performed monthly by the Finance Director.

Procedures

- The cashier will enter all collections immediately in the accounting system using the correct fund and revenue code.
- The cashier will immediately stamp all checks "for deposit only" in the appropriate fund bearing the city's name.
- A pre-numbered receipt is issued for all collections by the accounting system. Receipt lists date, amount, payer, proper accounting code, cash or check and is signed by cashier. One copy is given to every customer and one copy is retained with the daily receipt log with proper backup documentation.

3. Control Activities – Collections/ACHs (Continued)

- The cashier will reconcile his/her cash drawer daily. All collections will be put into the payment lockbox and retrieved daily by the Finance Clerk for review, verification, and preparation of the deposit.
- The prepared deposit will be given to the Finance Director to review and verify.
- Another employee, independent of the collections process, will deliver the deposit to the bank in a locked bank bag.
- The deposit receipt will be returned to the Finance Clerk for reconciliation with the receipt log and general ledger report.
- The Finance Director will reconcile the bank statements on a monthly basis and the City Manager will review reconciliations. Dates will be compared to deposit records for timeliness. Receipts will be reviewed for accurate amounts, coding, proper signature, and other required information.
- The cashier retains the key to the cash drawer. The drawer is to remain locked at all times when unattended.
- The cash drawer will be locked in a designated area after hours and on weekends.
- The cash drawer will be reconciled daily by two people and a cash report will be signed by both employees.
- The payment lockbox will be reconciled daily by the Finance Clerk. The lockbox will remain locked at all times and the Finance Clerk will have the only key.
- The Finance Clerk will place all deposits containing cash in a locked bank bag for deposit. The Finance Director and bank will have the only (2) keys.
- The Finance Director will reconcile the daily cash reports, deposit slips, and bank statements on a monthly basis.
- The Finance Director will periodically perform surprise cash counts to ensure there are no personal checks being held in the cash drawers and to ensure the drawers are in balance.
- All revenue codes used by the city are kept with the cashier. The Finance Director will notify the cashier if an account code is changed or added.
- The cashier posts the daily transactions to the general ledger after reconciling each day.
- The Finance Clerk will review the transactions for accuracy and make any adjustments or changes with the approval of the Finance Director.
- The Finance Director will reconcile the daily cash reports, deposit slips, and bank statements on a monthly basis.

Disbursements/Drafts

Objectives

1. Disbursements are for a valid city purpose and necessary.
2. Disbursements are timely.
3. Disbursements are accurately coded and recorded in the accounting system.
4. Disbursements are legally appropriated.

3. Control Activities – Disbursements/Drafts (Continued)

Policies

1. The city has adopted purchasing policies that comply with state law.
2. Various levels of authority have been assigned.
3. Purchase orders and packing slips are matched and given to the Finance Clerk for payment as soon as possible.
4. Checks are written weekly to ensure timely payment of invoices.
5. All checks require two signatures.
6. All checks have documentation attached at the time of signing.

Procedures

- All purchases will be made in accordance with the City's purchasing policy.
- Employees will complete a purchase order when appropriate. The employee's supervisor will review and authorize the purchase order.
- The Finance Clerk will enter purchase orders into the accounting system to encumber the funds and ensure compliance with the budget.
- The Finance Clerk will verify that packing slips and purchase orders match before payment of invoices.
- The Finance Clerk will prepare weekly check batches using backup documentation and present the batches to the Finance Director for review and approval of expenditure codes.
- The Finance Director verifies all expenditure codes for accuracy and availability of funds prior to the Finance Clerk processing check payments.
- The Finance Director and City Manager review backup documentation and manually sign all checks. The Planning Director may act as a second signer in the absence of either the Finance Director or City Manager.

Safeguarding of Assets

Objectives

1. Ensure city assets are properly valued and protected.
2. Ensure cash and other asset accounts are reconciled.
3. Ensure investments are safe and in accordance with adopted investment policy.
4. Ensure city assets are protected against loss, misappropriation, or theft.
5. Ensure inventory items are available when needed for use.

Policies

1. All bank account statements (checking, savings, investments, etc.) are reconciled to the general ledger accounts within 15 days of the date of the statement.
2. All bank accounts are appropriately collateralized. Bank accounts maintained in the State Collateral Pool are classified as "Public" on the bank's records.
3. All bank accounts are held in financial institutions under the city's name and only authorized employees (two signatures required) are allowed to open new accounts with the approval of the Board of Commissioners.

3. Control Activities – Safeguarding of Assets (Continued)

4. All withdrawals, checks, liquidations, etc., from any bank account require two signatures.
5. All investments require two signatures.
6. Inventory records contain enough information to readily identify corresponding capital assets. Capital assets are tagged or otherwise identified during a physical inventory that is performed annually.
7. Proper safeguards are in place to prevent theft or loss of assets.

Procedures

- The Finance Director reconciles the bank account statements to the general ledger on a monthly basis using an account analysis of each cash account.
- The City Manager reviews and approves the reconciliations and any adjustments to the general ledger.
- Reconciling items will not be carried forward more than sixty (60) days.
- The reconciliations are reviewed annually by external auditors.
- Any requests for new bank accounts are presented to the Board of Commissioners for approval. If approved, the Finance Director and City Manager will complete the necessary paperwork to open the new account in the city's name and ensure that the bank holds the funds in a "public" account.
- The Finance Director will annually review the accounts for accuracy of signers and proper collateralization.
- Assets valued in excess of \$500 will be appropriately marked or tagged.
- The Finance Clerk performs an inventory count on an annual basis. Disposal of inventory is done in a way that sensitive information cannot be retrieved.
- Insurance policies are reviewed and renewed annually for accuracy of covered assets.
- Surety bonds are renewed on an annual basis for all employees that handle cash.

Compliance

Objectives

1. Ensure that state laws regarding the issuance of debt are followed.
2. Ensure that state and federal grant regulations are understood and followed.
3. Ensure that note disclosures in the financial statements contain all required elements.

Policies

1. The city has adopted and maintains a debt management policy in accordance with state requirements.
2. The Finance Director consults with the city's financial advisor on all debt-related issues.

3. Control Activities – Compliance (Continued)

3. Every department must notify the Finance Director when an application for 100% grant funding is submitted and subsequently awarded.
4. All grants with matching requirements must be approved by the City Manager and Finance Director, and subsequently approved by the Board of Commissioners, prior to submission of application.
5. Once awarded, the Finance Director is to be notified of the project budget and detailed expenditure requirements of the grantor agency.
6. The Finance Director must be provided with the grant contract information, grant or contract numbers, and whether the grant is state or federal funds.
7. The Finance Director will amend the budget as necessary to accommodate awarded grant revenues and expenditures.

Procedures

- The City Manager and Finance Director annually review the debt management policy with the city's financial advisor.
- Before the issuance of debt, the Finance Director consults with the city's financial advisor to determine the impact or implications to the city's financial well-being.
- The Grant Administrator is responsible for working with the Finance Director to submit all grant applications.
- All grant applications for grants requiring matching funds will be presented to the Board of Commissioners for approval before submission to ensure that funding will be made available.
- The Finance Director will determine any needed budget amendments upon receiving notice of award for any grant funds. The budget amendments will be presented to the Board of Commissioners for approval.
- Grant management responsibilities will be assigned to an appropriate employee for every grant. This will usually be the Grant Administrator.
- The Finance Director will be notified when any reimbursements have been submitted so that the revenue can be allocated to the appropriate revenue code.
- A copy of every grant application and contract will be filed with the City Recorder and secured electronically.

4. Information and Communication

Overview

Management has the responsibility to adequately communicate and provide information to both internal and external parties. It is important that employees know the objectives, policies, and procedures management has established and what the expectations are for internal controls. External stakeholders (citizens, developers, creditors) also seek information regarding objectives and reliable financial information.

4. Information and Communication (Continued)

Objectives

1. Ensuring that quality information for achieving the city's objectives is available and used; internally communicated by management; and externally communicated by management.

Policies

1. Information will be communicated in the same format in which it is maintained.
2. Reliable and accurate information will be communicated to those who need it in a timely and useful format.
3. Information will be maintained in a way that allows management to remain confident that information released is accurate, and that the release of information is in compliance with policies and procedures.

Procedures

- The city maintains financial data in a computerized accounting system. Requests for financial information should be provided through a computer-generated report to maintain the integrity of the data.
- Any requests for data maintained in the city's asset management computerized system will be provided through a computer-generated report from that system to maintain the integrity of the data.
- The city complies with the Tennessee Public Records Act, Tennessee Open Meetings Act, and observes the guidelines provided by the Office of Open Records Counsel.
- All requests for information or records will be forwarded to the City Recorder to ensure compliance with state law.
- The city will redact all personally identifiable, confidential, or protected information in accordance with state law.
- Management clearly defines the lines of communication through policy manuals and organizational charts.

5. Monitoring

Overview

The internal control system changes as technology, staff, objectives, and policies change. Management is charged with continually monitoring the internal control system to determine if it is operating as it was designed to do and to ensure the controls are being followed.

Objectives

1. Practice activities to monitor the internal control system and evaluate results.
2. Address deficiencies noted in the internal control system in a timely manner.

5. Monitoring (Continued)

Policies

1. An annual risk assessment will be conducted to ensure that internal controls continue to work as designed over time.
2. The city will establish more efficient and effective operations over time.
3. Accurate and reliable information will be used in decision-making.

Procedures

- Management annually evaluates the state of the internal control system and determines any deviations from the designed criteria and the current condition of the system.
- Management makes a decision on whether to change the design of the internal control system or implement corrective actions to improve the effectiveness of the existing system.
- Members of management will periodically review the procedures outlined in this manual to ensure that policies are being implemented and objectives are being met.
- Financial reports will be generated monthly and reviewed by those in a position of authority over financial operations. Those in a position of authority include, but are not limited to, the Finance Director/CMFO, City Manager, and Board of Mayor and Commissioners.

Summary

The framework of this manual complies with the state requirements and was created using the Green Book as guidance. This manual will be reviewed annually and updated as needed. All employees of the City of Lakeland will be required to abide by the policies and procedures outlined in this manual, as well as any corresponding state laws. The manual will be made available electronically and in paper form.

The City of Lakeland will abide by the Internal Control and Compliance Manual for Governmental Entities and other Audited Entities in Tennessee issued by the Comptroller of the Treasury.

Supplementary Information

TN Comptroller of the Treasury
<http://www.comptroller.tn.gov>

Internal Control and Compliance Manual (12/2015)
http://www.comptroller.tn.gov/la/pdf/20150202ICCMannual_Complete.pdf